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SURVEY

PwC: Family firms must modernise operations

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Family businesses must adapt, innovate and become more professional in the way they run their operations to meet the challenges ahead, a PwC study says.

PwC's seventh Global Family Business Survey, which polled 2,378 executives in more than 40 countries, found that 40% of respondents see modernising their family business as a key challenge over the next five years.

The survey highlights that family firms need to upgrade the processes, governance and skills to stay ahead of rivals and remain relevant in a rapidly changing business environment.

Kajornkiet Aroonpirodkul, a partner at PwC Thailand, said the spluttering global economy, uncertainties in export markets, exchange rate volatility, attracting and retaining talent and succession issues reflected some of the major challenges facing family businesses today.

"Family businesses have no choice but to look into adapting faster, innovating earlier and becoming more professional in the way they run their operations," he said.

"Family-owned leaders must strike a balance between modernising not only their business but their family, bearing in mind the challenges presented by intense competition, rising price pressure and fast-evolving technology."

Family businesses — a barometer of the health of an economy — account for between 70% and 90% of gross domestic product globally.

Mr Kajornkiet said family firms remained a dynamic and resilient sector despite the tough economic environment and mounting pressures around skill shortages and innovation.

This was reflected in the findings, as 65% of family businesses surveyed reported growth in the last 12 months, while 70% expect to grow steadily over the next five years and 15% are planning to grow aggressively over the next five years.

Globally, family firms' growth ambitions are particularly strong in China (57%), the Middle East (40%) and India (40%).

Family businesses' most important priorities are to remain in business and to improve profitability. Sentimental and idealistic issues of family and community rate much lower.

This year's top three key internal challenges include the need to continually innovate (64%), attracting the right skills/talents (61%) and retaining key staff (48%).

Price competition (58%), the economic situation (56%) and the number of businesses competing (42%) are the top three external challenges.

"Getting the family business on a professional footing alone is not enough," Mr Kajornkiet said.

"It must be accompanied by an equally rigorous approach to professionalising the family. This means they need to adopt processes to govern how the family interacts with the business, including establishing a decision-making infrastructure and formal communication channels."

Family firms are also looking to grow, according to the report. It found that 68% of family businesses are exporting overseas, with overseas sales making up about a quarter of turnover for all respondents.

Around 75% expect to continue exporting in the next five years and predict this will account for more than a third of all sales.

The most internationally ambitious are pushing for aggressive growth, have a turnover of more than US$100 million and are in the manufacturing and agriculture sectors.

Geographically, the most ambitious family firms are found in Eastern Europe, the Bric (Brazil, Russia, India and China) countries and the Mint quartet of Mexico, Indonesia, Nigeria and Turkey.

Even so, Mr Kajornkiet said fewer businesses expect to be exporting to a significantly larger number of countries than they do now, with most tending to stick to neighbouring countries or those with the same language or similar culture.

"This trend suggests that they lack either the skills or confidence to break into new regions. Many would probably need to hire outside talent to bridge that gap, so they may well be missing out on new sources of growth as a result," he added.

Mr Kajornkiet said Thai businesses are more likely to pass ownership and management of their business to the next generation. But very few have concrete succession plans in place.

This is in line with the global trend where 53% of family businesses say they have succession plans in place for at least some senior roles. However, only 16% of family firms say they have a succession plan that has been discussed and documented.

"Succession is an issue family firms must address with the same commitment and energy they're devoting to professionalising other aspects of the business," said Mr Kajornkiet.

"There's a growing trend that younger family members go through a proper development programme before entering the business, and in many cases this includes working outside their own company."

While a wider gap between generations and a lack of communication between those running the company and those who are expecting to take over would add to future succession challenges, businesses must address the family factors by preparing their members for the task of ownership, networking with other family businesses and creating space for innovators.

In this year's survey, 72% of respondents recognise that they will have to adapt and exploit the full opportunities of digital technologies to avoid being overtaken by more advanced competitors.

Similarly, family businesses in Thailand recognise the growing impact of digital transformation, Mr Kajornkiet said, citing technological advances as one of the global megatrends most likely to transform the business over the next five years.

Adding to the major challenge in the region is the forthcoming launch of the Asean Economic Community at the end of 2015.

Regional integration will not only serve as a gateway for more customers, talent and opportunities, but will also bring in more competitors.

"This is the right time for Thai family firms, especially small and medium-sized enterprises, to be seeking more investment or funding," Mr Kajornkiet said.